Opening Statement

Chairman Michael G. Oxley

Financial Services Committee

Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises

"Reviewing U.S. Capital Market Structure: The New York Stock Exchange and Related Issues"

October 16, 2003

I want to thank the Capital Markets Subcommittee chairman, Richard Baker, for holding this important and timely hearing this morning. He has shown fine leadership on investor protection issues.

The New York Stock Exchange is an important symbol of capitalism here and throughout the world. It has a rich and storied history, and has served investors well for over 200 years.

The past year, though, has been a difficult one for the Exchange. Highly publicized controversies have tarnished the image of the NYSE, and have led many to call for changes to the corporate governance of the Exchange, its role as a self-regulator, and also to its defining characteristic, the auction market system.

These calls for reform have heightened the urgency of a thorough review and modernization of the regulatory and operational structure of our capital markets. As electronic trading and the growth in investor participation in the securities markets have transformed those markets, problems have arisen that were never envisioned when many of the significant rules affecting market structure were put into place.

Indeed, the notion of a securities market as its own regulator is now in question. Several years ago, in response to a scandal on the over-the-counter market, the governance of the Nasdaq market was reformed considerably, leading to a separation of its regulator from the market. Today, some are calling for a similar change to regulation of all exchanges.

The corporate governance of exchanges is now receiving the kind of close scrutiny that corporate America underwent leading up to, and since the passage of, Sarbanes-Oxley. It is vitally important to investor confidence that the management of the exchanges that are at the heart of our capital markets be held to the highest possible standards of integrity and transparency.

Increasingly, institutional investors are calling for reforms of the NYSE's specialist system. Some view the specialist as an unnecessary middleman who impedes the efficiency of the marketplace. Even if the NYSE is correct about its ability to achieve "price improvement," large investors say they place a higher value on speed of execution and anonymity.

If we wanted to build a stock market from scratch, would it be run by humans or computers? Why does the NYSE control 80 percent of the trading volume of its listed companies when Nasdaq controls only about 20 percent of the volume of its member companies? Have current rules and regulations contributed to these results? How does the current structure benefit or harm investors? These are important questions. Fortunately, we will hear from an esteemed group of witnesses this morning that can provide answers.

Mr. Reed has come out of a well-deserved retirement to accept this challenging position and is off to an impressive start.

I look forward to the testimony of all of the witnesses and yield back.

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